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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 16, 2000

COMMONWEALTH OF VIRGINIA, ex rel.
STATE CORPORATION COMMISSION

v.

CASE NO. PUE000567

AUBON WATER COMPANY,
Defendant

RULE TO SHOW CAUSE

The Divisions of Energy Regulation and Public Utility Accounting ("Divisions") of the Virginia State Corporation Commission ("Commission"), after having conducted an investigation of Aubon Water Company's compliance with the Commission's Final Order in Stephen M. Turner et al., v. Aubon Water Company, Case No. PUE990002, allege that:

(1) By notice dated November 4, 1998, Aubon Water Company ("Aubon" or "Company") notified its customers and the Divisions, pursuant to the Small Water or Sewer Public Utility Act, §§ 56-265.13:1 et seq. of the Code of Virginia, of its intent to increase its water rates effective for service rendered on or after January 16, 1999.

(2) By Preliminary Order dated January 13, 1999, the Commission, among other things, suspended the Company's proposed rates through March 8, 1999, pending a hearing scheduled pursuant to § 56-265.13:6 of the Code of Virginia.

(3) A public hearing on this matter was convened on June 22, 1999, and was presided over by Michael D. Thomas, the appointed Hearing Examiner. Hearing Examiner Thomas filed his Report with the Commission on September 27, 1999.

(4) By Final Order dated December 17, 1999 (amended Nunc Pro Tunc by Order of January 7, 2000), the Commission ordered Aubon and the Commission Staff to take the following measures:

(i) the Company was ordered to establish within five business days from the effective date of the Final Order an escrow account to be used solely for the payment of expenses related to the construction, operation and maintenance of the water treatment facility to be constructed for the Long Island Estates subdivision in Franklin County, Virginia;

(ii) the Company was ordered to deposit monthly in the required escrow account the pro rated sum of \$1,779.81 for the month of March 1999, and the sum of \$2,321.50 for each month thereafter, through the last day of the month following the date of the Final Order, net of expenditures made relating to the water treatment facility and any refunds required by the Final Order;

(iii) beginning the month after the effective date of the Final Order, the Company was required to deposit the sum of \$2,321.50 into the required escrow account on or before the tenth day of the month;

(iv) the Company was ordered to make no further expenditures or withdrawals from the required escrow account, except for service charges associated with such account, until it obtained financing for the plant improvement project or until further order of the Commission;

(v) the Company was required to file a quarterly report to the Commission's Staff, with supporting documentation showing all escrow account activity for the preceding three months, within thirty (30) days of the end of each quarter. The first report was due January 31, 2000;

(vi) the Staff was directed to conduct an annual audit of the escrow account ordered;

(vii) the Company was required to maintain its books in accordance with the Uniform Systems of Accounts for Class "C" Water Utilities; and

(viii) this case was continued generally and remains open.

(5) The Divisions have reviewed all reports filed by Aubon and, based upon their investigation of the Company's escrow account activity, allege that the Company has failed to comply fully with several of the aforementioned ordering provisions of the Commission's Final Order of December 17, 1999, and the Nunc Pro Tunc Order of January 7, 2000, in that Aubon Water Company:

(a) failed to establish an escrow account to be used solely for the payment of expenses related to the construction,

operation and maintenance of the water treatment facility to be constructed for the Long Island Estates subdivision in Franklin County, Virginia, within five business days from the effective date of the Final Order;

(b) failed to deposit the sum of \$2,321.50 into the required escrow account on or before the tenth day of the month, beginning the month after the effective date of this Order;

(c) failed to file timely quarterly reports to the Commission Staff, with supporting documentation showing all escrow account activity for the preceding three months, within thirty (30) days of the end of each quarter; and

(d) that by failing to make the required escrow deposits, the Company has diverted rate revenues ordered to be placed in the restricted escrow account and made unauthorized expenditures in violation of the Final Order.

(6) Based upon the Company's failure to make the required deposits to the ordered escrow account, the balance is reported by the Company to be \$9,268.16, which is a shortfall of \$4,984.75.

(7) Based upon its investigation, the Divisions recommend that the Commission enter a remedial order directing the Defendant to immediately deposit into the escrow account sufficient cash to bring the escrow account to a fully funded level, as required by the terms of the Commission's Final Order

of December 17, 1999. The Divisions compute the fully funded level of the escrow account to be \$16,574.41 as of November 1, 2000.

NOW UPON consideration of the Divisions' allegations, the Commission concludes that it is appropriate to take evidence to determine whether or not the defendant Company failed to comply fully with the Commission's Orders of December 17, 1999, and January 7, 2000, and, if so, whether the remedial action recommended by the Divisions is appropriate.

Accordingly, IT IS ORDERED THAT:

(1) Aubon Water Company appear by its President and owner, Mr. G. Ray Boone, before the State Corporation Commission's appointed Hearing Examiner in the General District Courtroom, Franklin County Courthouse, 275 South Main Street, Rocky Mount, Virginia, on November 6, 2000, at 2:00 p.m., to show cause why it should not be required to fund immediately the escrow account for the Long Island Estate's water treatment facility as ordered by the Commission's Final Order of December 17, 1999, in Case No. PUE990002.

(2) Aubon Water Company present evidence of the balance on hand in the escrow account as of the time the hearing on November 6, 2000, is convened.

(3) Aubon Water Company present its books and records for inspection at the hearing on November 6, 2000.